

A better way to travel,
today and tomorrow

TAB 3 PROJECT FINANCING

Introduction

Dulles SmartLink will assume complete responsibility for operation, maintenance, development, design, financing, and enhancement over the life of the Dulles Toll Road (DTR) Concession. Our team is structured to provide world-class expertise in all of these areas, as well as the local experience to ensure that the DTR is operated effectively and enhancements are delivered on schedule to meet community expectations for the Concession. Dulles SmartLink will provide VDOT with a single point of responsibility for the obligations contained within the Comprehensive Agreement and other related agreements over the life of the Concession.

Dulles SmartLink's Conceptual Plan of Finance has been structured to transfer appropriate risks to the private sector. Dulles SmartLink will undertake a significant investment in preliminary engineering, traffic forecasting, stakeholder relations, administration, environmental support, and financial advisory services required to reach financial close. Upon execution of a Comprehensive Agreement, we will operate the DTR for the benefit of the traveling public, including the development, design, and construction of significant enhancements.

The public debate on using concessions to capture value for public projects is ongoing, and VDOT will require dialog and information before the resolution of an optimal approach. We are providing flexibility to VDOT by presenting two alternative approaches to improving transportation in the corridor as part of this procurement process. Under the existing tolling structure approach, tolls will be determined by the existing plan, which holds them constant until the currently programmed 25-cent increase in 2010 and has them remain fixed thereafter. This would generate more than \$1.5 billion in value, which is sufficient to fund project enhancements, plus a contribution of in excess of \$1 billion for the Dulles Corridor Metrorail Project.

We can customize the solution that best meets VDOT objectives.

099.A1

We have also developed an alternative approach based on the premise that VDOT may wish to accelerate the present value of future revenue potential to provide a greater source of funding for transit or other projects. By implementing a toll structure that more closely relates to the value created for drivers, the upfront value can be increased substantially to in excess of \$3 billion. This amount is sufficient to fund the proposed project enhancements on an accelerated schedule, the state and local share of both phases of the Dulles Corridor Metrorail Project, as well as provide funding to support operations of the Dulles Corridor Metrorail Project, or for other VDOT purposes. As the public debate proceeds and policy issues become clearer, we are willing and able to customize the solution that best meets VDOT objectives.

Tab 3 Project Financing

It should be noted that it would be possible to generate value materially in excess of \$3 billion by placing few or no limitations on toll rate increases (as has occurred on other projects such as SR 125 in San Diego and ETR 407 in Toronto) or by adopting an aggressive schedule of toll rate increases (for example, Chicago Skyway). We do not believe that it is necessary to adopt these measures to generate proceeds sufficient to fund the Dulles Corridor Metrorail Project and the project enhancements necessary to enhance mobility within the Dulles Corridor. Further, we view broad public support as important to the success of the proposal, and an aggressive approach to toll rate increases may lessen this outcome.

3.a Preliminary Cost Estimate

Provide a preliminary estimate and estimating methodology of the cost of the work by phase and/or segment (e.g., planning, design, construction).

Our conceptual cost estimate for this project is broken down in Table 3.a-1 below. This estimate details costs identified with the proposed enhancements detailed in Tab 2.a. Construction costs are escalated in our financial model to the date of expenditure based on inflation factors for the major cost components of the scope.

Enhancements under either tolling scenario are expected to be completed within 12 years of being awarded the Concession, and Dulles SmartLink will commit to these enhancements as part of the Comprehensive Agreement.

Table 3.a-1 Conceptual Cost Estimate

\$ in Millions	DTR Cost Estimates
Construction Cost	
Roadway	185.0
Structures	72.2
Tolling System	46.0
Total Construction Cost	303.2
Right-of-Way	6.0
Concession Value	
Existing Tolls	1,591.8
Alternative Tolls	3,026.7

Note: Assumes DTR is debt free at handover. Values listed are in 2005 dollars

All operations and routine and capital maintenance costs have been provided for in the financial model and are fully funded by the Dulles SmartLink proposal.

Preliminary Agency-Related Costs

Public Agency Participation

The Dulles SmartLink Team has structured a plan of finance that requires no public funding. We recognize that certain risks and costs will accrue to VDOT. Examples of these type risks are:

- Overruns in the department's oversight budget
- Department-caused delays
- Safety-directed changes as a result of new standards

Each of these has a different risk profile, which could impact the ultimate amount required to mitigate the risk. At VDOT's request, Dulles SmartLink is willing to establish a contingency fund when the actual amount of any contingency can be more accurately determined.

Tab 3 Project Financing

3.a Preliminary Cost Estimate

Planning and Permitting Phase

As outlined in Tab 2.c, Dulles SmartLink will engage Parsons to perform NEPA activities under the direction of VDOT. Dulles SmartLink's role in this process will be limited, due to the level of independence the statutes and overseeing agencies require for these items. In addition, Dulles SmartLink will acquire the environmental permits with limited oversight by VDOT. Based on Dulles SmartLink's experience on previous projects, like Pocahontas Parkway, Capital Beltway HOT Lanes, and ROC 52 in Minnesota, we are familiar with the scope and cost of these activities and have incorporated these costs into our preliminary financial analysis.

Estimating Methodology

The proposal for the Dulles SmartLink Team was developed using our analysis of the best and most efficient way to move vehicles along the Dulles Corridor. These concepts were turned into the sketches found in Tab 2.a, and approximate quantities were derived from the sketches applying industry standards for items, such as lane width, acceleration/deceleration distances, sight lines, and stopping distances. Estimated construction costs are in conformance with Virginia Department of Transportation Road and Bridge Specifications, 2002, English. Cost and completion schedules assume construction design will begin January 2007, and costs are inflated to the date of expenditure. The estimate is based on conceptual geotechnical information, with consideration of team members' experience with other similar projects along the Dulles Corridor. Please see Tab 2.a for a complete list of assumptions.

A schedule was developed based on the permitting processes, the volumes of work required, and other projected and expected time constraints. The Dulles SmartLink Team then applied an escalation factor for the projected work.

Estimated right-of-way costs have been included. Fluor and Jacobs will manage the project design effort to minimize the right-of-way acquisitions as the plans are developed. This aspect will be studied in more detail as part of the detailed proposal preparation and resolved during the NEPA process. Utility relocations will be required and are included in the cost estimate. These costs will be refined, using further analysis, as part of the detailed proposal.

The estimated construction costs do not at this time include consideration for such items as:

- Hazardous materials abatement
- Contaminated soils
- Historical/archaeological site resolution

Changes to the conceptual/preliminary configurations desired by VDOT and mitigation measures required by the NEPA process will be addressed in terms of responsibility and cost.

3.b Plan for Development, Financing, and Operation of the Project

Submit a plan for the development, financing and operation of the project, showing: the anticipated schedule on which funds will be required; and proposed sources and uses for such funds.

Project Development

Upon execution of a Comprehensive Agreement with VDOT, the Dulles SmartLink team will mobilize the resources needed to take over operations and develop a guaranteed completion schedule for the enhancements identified in this proposal. It is anticipated that the enhancement process will take place over a period of up to 12 years. Our current estimate for private development expenditures at-risk prior to award of a Comprehensive Agreement is \$5-40 million, depending upon whether or not a fully underwritten proposal (including engineering sufficient to achieve a fixed price for some or all project enhancements) is required before award of the right to negotiate and enter into a Comprehensive Agreement.

Financing

Dulles SmartLink proposes the use of a Concession legal structure, whereby the Concession company would receive all net revenues until an agreed-upon return has been achieved, consistent with the risks associated with projects of a similar nature, and then would share residual cash flow above this threshold with the VDOT. Dulles SmartLink, as Concessionaire, would be in a first-loss position. VDOT would receive a Concession payment at closing to use as discussed in Tab 4.a.

Table 3.b-1 summarizes the sources and uses of funding for the project.

Table 3.b-1 Summary of Sources and Use of Funds – Concession

Toll Structure		Existing		Alternative	
	\$ in Millions	Total	%	Total	%
Funding Sources	Senior Debt (Private)	1,200.0	75.4%	2,245.0	74.2%
	Equity	391.8	24.6%	781.7	25.8%
	<i>Total Sources</i>	1,591.8	100.0%	3,026.7	100.0%
Funding Uses	Concession Payment	1,225.8	77.0%	2,611.1	86.3%
	Project Costs	309.2	19.4%	309.2	10.2%
	Financing Costs and Fees	56.8	3.6%	106.4	3.5%
	<i>Total Uses</i>	1,591.8	100.0%	3,026.7	100.0%

Note: Assumes DTR is debt free at handover. Values listed are in 2005 dollars.

Tab 3 Project Financing

3.b Plan for Development, Financing, and Operation of the Project

Sources of Funds

Senior Debt

Senior debt would have the first claim on net revenue after payment of operations and maintenance (O&M) expenses and would restrict cash flows to equity unless minimum coverage ratios are met. Senior debt is assumed to be taxable bonds, which would be structured to achieve an investment grade rating. Note that Dulles SmartLink may elect to use other sources of debt (for example, bank debt) as an alternative to bond funding.

Equity Investment

Dulles SmartLink proposes to own the Concession Company, with Transurban as the majority investor and Goldman Sachs as a minority investor. We reserve the right to introduce other minority investors.

Uses of Funds

Concession Payment

The Dulles SmartLink Team has assumed that VDOT's preference is to receive 100 percent of the estimated Concession payment at financial close. Should VDOT's preference, however, be to receive some or all of the funding over time (for example, to fund Dulles Corridor Metrorail Project construction expenditures as they are incurred or to fund rail operations costs), then the quantum of the Concession fee will increase to reflect future rather than present values.

Financing Costs and Fees

The Dulles SmartLink Team will incur financial advisory and underwriting fees, legal expenses, and other transaction costs in connection with financial close and execution of the Comprehensive Agreement. These amounts have been included in our financial analysis as part of this proposal.

The Dulles SmartLink Team proposes to take responsibility for arranging for capital markets debt issuance or other forms of debt financing and fund the equity investment subject to final approval from VDOT. The anticipated legal structure will involve a private entity that will develop the project under the PPTA and will have the right to collect tolls on the facility.

Risk is transferred to the private sector.

Tab 3 Project Financing

**3.b Plan for Development, Financing, and Operation
of the Project**

Management and Operations

Transurban will be responsible for the delivery of the management, operations, and maintenance functions. It is anticipated that Dulles SmartLink would enter into a Technical Services Agreement with VDOT concurrently with the award of the Concession, supported by a Letter of Credit as a guarantee of performance. Transurban, as part of this responsibility, will also plan and implement the critical element of Customer Service and Toll Systems Management, in close coordination with the Dulles Greenway and Capital Beltway HOT Lanes, to provide customers a seamless interface and a high level of customer service.

3.c Financial Assumptions

Include a list and discussion of assumptions (user fees or toll rates, and usage of the facility) underlying all major elements of the plan.

Key assumptions used in the conceptual finance plan include:

Estimated Traffic and Toll Revenue

Vollmer prepared traffic and revenue estimates for this proposal based on a refinement of the regional traffic model calibrated to reflect local corridor traffic and appropriate algorithms based on its experience in Northern Virginia. The Dulles SmartLink conceptual proposal has developed two different toll pricing methodologies. The first methodology retains the existing VDOT toll escalation timetable (i.e., one 25-cent toll increase in 2010), and the second uses a compounding growth factor to determine toll increases. Each of these options would result in a different Concession payment at the start of the Concession. Table 3.b-1 compares the anticipated Concession payment under the different toll escalation methods, using the assumptions in Tab 3.b.

Dulles SmartLink
will bear traffic and
revenue risk.

101.A1

Structure of Project Debt

The proposed debt structure has been developed by Goldman Sachs with assistance from other finance professionals and consultants on the Dulles SmartLink Team. Interest rate and debt coverage assumptions are consistent with the terms achieved in other recent toll road concession financings and with the goal of achieving an investment grade credit rating. Assumptions are subject to market conditions and at present include:

- Average Interest Rate on Senior Debt 6.1%
- Minimum Debt Service Coverage on Senior Debt 1.25X

Operations and Maintenance

The costs associated with operations and maintenance functions, including operating the existing toll collection systems and eventually the fully electronic tolling systems, are assumed to be paid from project revenues prior to debt service. For the purposes of this proposal, the Dulles SmartLink Team has assumed operations costs in the range of 10 to 12 cents per transaction. This cost is assumed to decrease once the transition to full electronic tolling is completed (scheduled for 2010). These estimates will be refined for the detailed proposal through increased understanding of the cost and basis of integration with the existing electronic tolling systems. The following additional assumptions have been made:

- Tag issuance costs are to be incurred outside the DTR project (VDOT currently funds this activity)
- Costs associated with violation enforcement can be recovered from violators, as provided for in the current legislation

Maintenance services will be provided through a contract with VMS. The costs associated with routine and capital (major) maintenance have been factored into our financial model, ensuring that minimum standards are maintained for the life of the Concession and that the road is handed back at the end of the term in an acceptable condition. The costs will be reviewed in line with the changes in scope agreed with VDOT at the detailed proposal stage.

Revenue Sharing

Unlike some other Concession financings (i.e., Chicago Skyway), we are exploring a revenue sharing arrangement under which a share of revenues is paid to VDOT once Dulles SmartLink has achieved a base rate of return. This arrangement will create a mechanism for VDOT to participate in the success of the project.

Dulles SmartLink is considering a revenue sharing arrangement with VDOT.

102-A1

3.d Risk Factors and Mitigation Measures

Identify the proposed risk factors and methods for dealing with these factors.

The Dulles SmartLink Team has developed its plan of finance for the DTR project based on the proven experience of our team on similar projects in Virginia and throughout the United States, Europe, and Australia. As the Concessionaire, Dulles SmartLink would be the entity ultimately responsible for operation and maintenance of the DTR. The project financing will be structured, so the principal risks associated with the transaction are allocated among Transurban as operator/equity sponsor, Goldman Sachs as the financial adviser/equity sponsor, Fluor as design-build program manager, VMS as asset manager, banks or bondholders, VDOT, and third parties who would be compensated for taking other risks.

Construction of Facility Improvements on Time and on Budget

Dulles SmartLink will contract with Fluor for the construction of the enhancements to the DTR. Fluor will assume the risk for delivering the enhancements to the DTR as part of that contract, including scope and quality, with a cost-certain and date-certain completion. Assurances for Fluor's performance under that agreement will be provided through a combination of bonding and guarantees typical for similar projects. Fluor deals with these risks using industry-leading risk management programs and systems, along with proven excellence-in-execution practices and proven project management systems and procedures.

Traffic and Revenue Risk

Transurban and Goldman Sachs, as equity investors, purchasers of the project debt, TIFIA (if used), and potential credit enhancers bear the risk that project revenues may not be sufficient to pay scheduled debt service or achieve target returns on equity. VDOT will have absolutely no financial obligation to those investors. The risk of a payment default, however, is minimized by structuring the project debt with significant coverage, including adequate at-risk equity, and by funding reserve and contingency accounts, as well as the substantial expertise and resources of Transurban in managing the operation.

Operations and Maintenance Risks

Dulles SmartLink will accept all operation and maintenance risk. Our approach to minimizing operational problems is based on risk management principles. Risk management commences upon entering into a Comprehensive Agreement and is continuous through to the end of the Concession term. Incorporating a strong operational involvement throughout the project provides a formal process for managing risks across all activities including identification and reduction.

Tab 3 Project Financing

3.d Risk Factors and Mitigation Measures

Financial Feasibility Risk

Based on the long operating history of the DTR and analysis of Transurban's regional traffic model, the financial risk of the project is significantly less than the risks associated with a start-up toll road. While specific project enhancements will be analyzed further for economic viability, we find there is little risk that the overall project will not support contributions to the Dulles Corridor Metrorail Project in the amounts included in our conceptual plan of finance. Over time, additional enhancements will prove feasible and will be implemented as required, subject to VDOT approval.

Lower financial risk than
with a start-up toll road.

103-A1

Local Political Risk

There are a number of potential local political risks associated with the project. The principal risk relates to public acceptance of the benefits associated with a privately operated Concession. Given the success of the DTR, the existence of a toll on DTR at present, and the urgency of drivers to find relief from congestion, we believe these risks can be reduced with a public information campaign. As set forth in detail in Tab 4, the Dulles SmartLink team has implemented a strategy to address local political risks and encourage stakeholder support for the project, as was done on the Capital Beltway HOT Lanes Project. Please reference Tab 4.b and 4.c for more detail on the Dulles SmartLink plan and experience in dealing with these risks.

NEPA Environmental Approval Risk

While the conversion of an existing facility to a Concession does not require environmental approvals, Dulles SmartLink will rigorously comply with the letter and intent of environmental regulations before proceeding with construction of enhancements. Until final environmental clearances are received, there is risk that certain elements of the enhancements we propose will not be environmentally acceptable. At this level of definition, most enhancements proposed are in the existing right-of-way with no apparent significant negative environmental impact. While the Dulles SmartLink team will not try to influence the results of environmental review process, we will support the process by providing timely analysis and responses to questions raised by the environmental assessment team. Upon execution of a Comprehensive Agreement, we will invest in project development expenses at-risk to financial closing.

3.e Commitment of Local, State, and Federal Resources

Identify any local, state or federal resources that the proposer contemplates requesting for the project. Describe the total commitment (financial, services, property, etc.), if any, expected from governmental sources; and the timing of any anticipated commitment.

The following resources are needed to successfully implement the Dulles SmartLink plan. Dulles SmartLink will be responsible for reasonable costs incurred by external parties that relate directly to our ability to carry out our obligations under the Comprehensive Agreement.

NEPA Environmental Review – VDOT will be responsible for leading and directing the independent environmental reviews of the proposed enhancements. If acceptable to VDOT, the Dulles SmartLink Team will provide an Environmental Coordinator to support VDOT in preparing the required documents.

No funding by VDOT or other public entities is required.

104.AJ

Permitting – Dulles SmartLink will be responsible for all construction permits and other approvals needed to support construction including providing any required mitigation measures.

Right-of-Way – To the extent possible, the project will be constructed in existing right-of-way (ROW). For those segments of the project where new ROW is required, VDOT will use its right of eminent domain, if necessary, to secure the affected parcels. Dulles SmartLink will reimburse VDOT for related expenses.

Law Enforcement – Dulles SmartLink will reimburse VDOT for the cost of policing and public safety on the DTR.

Dulles Corridor Metrorail Project Funding – Before submitting the conceptual proposal, members of the Dulles SmartLink Team conducted numerous interviews with opinion leaders knowledgeable about the Dulles Corridor transportation problems. The consensus was that any Concession payment should provide for the obligation to fund the Dulles Corridor Metrorail Project and also provide additional funds to be allocated at the discretion of VDOT to other projects deemed to be an essential part of any future development of the Dulles Corridor or future phases of the Dulles Corridor Metrorail Project.